

**Testimony of Mayor Thomas M. Menino
Before the U.S. House Committee on Financial Services
April 10, 2008**

- Thank you, **Chairman Frank**, and Distinguished Members of the Financial Services Committee for the opportunity to testify on the *FHA Housing Stabilization and Homeownership Retention Act*.

I want to acknowledge Congressmen Capuano and Lynch and thank them as well as Chairman Frank for their hard work on behalf of the citizens of Boston.

You have asked that I focus my remarks on Section III of the Act, which provides loans and grants to states for foreclosure mitigation and relief.

This important legislation comes none too soon. As strong as Boston is economically, we are seeing every day how the meltdown of our financial system is affecting the lives of people who live in our neighborhoods and call Boston home. Last year, lenders foreclosed on 7 hundred houses – more than three times the level foreclosed the year before. And by the end of 2008, we're projecting another one thousand foreclosures. One foreclosure is one too many.

We have 250 thousand houses in our city. Approximately one half of one percent of this housing stock was foreclosed on – representing 1,200 housing units. While one half of one percent may not seem significant, here's the problem. Our foreclosures are concentrated in the poorest neighborhoods of our city.

They're located where thousands of hard-working people have scraped together money to buy homes through the City's programs. Neighborhoods where the City and its partners have invested millions of dollars in city, state and federal, resources to produce high quality, affordable rental housing.

So, even though our numbers are relatively small, the impact is huge not just for the families who are being foreclosed on but also for people who live next to a boarded, foreclosed building – one that can quickly become unboarded and provide opportunities for drug dealing, chop shops, prostitution, and other illegal activity. We have worked too hard to make these neighborhoods thriving places to live and work. We can do better – we must.

This brings me to the legislation. If there is one thing I want to leave you with today, it's this: A sense of urgency. We must act now.

At the local level, I see the impact of these foreclosures. I know that anyone who takes a look at a street of foreclosed properties comes away with the same feelings I do: frustration and impatience. You want to take immediate action before more families lose their homes – their sense of security and hope. Before more properties become vacant and the people who live in these neighborhoods see their property values decline and crime increase.

I have some specific comments about Section III and I know that you'll consider my remarks in the spirit in which I raise them – to make this legislation the best it can be. Section III ties funding to the number of foreclosures statewide as a share of foreclosures nationally. Some states like Massachusetts, which have relatively few foreclosures, have cities like Boston with concentrated foreclosure activity. I urge you to look at the formula with this in mind – design it so that high impact pockets of foreclosure receive resources and assistance.

In general, I believe the focus on states seems to me a bit misplaced. Focus the resources and the response where it is happening. Cities – and Mayors in particular - are the ones dealing with this foreclosure crisis every day. My understanding is that states will develop their plans and that funding comes once the plans are approved. Think how long it will take for states to get their information from cities like Boston and from smaller communities and then accumulate and digest the information. We can't afford to wait.

We have proven tools and processes that work. I urge you to consider utilizing the CDBG allocation process, where larger cities with the capacity can develop their own plans and have states work with communities that do not have local capacity I strongly urge you to provide direct funding to cities like Boston.

I want to focus now on the reality of foreclosures – dealing with the servicers. My comments are based on our experience in purchasing foreclosed property in the Hendry Street neighborhood of Boston. We bought two three decker homes and two other three deckers that had been converted to condos for a total of twelve units. We also have plans to purchase additional houses if we can attract financing. This bill would be a real boost to our efforts.

I strongly urge you to think through the mechanics of buying from the servicers. Otherwise, the legislative goals will not be achieved and our neighborhoods will continue to be plagued by these properties.

Dealing with servicers and their realtors is extremely time consuming. Realtors have no authority and must get a servicer's approval to sell. Servicers are overwhelmed with the numbers of properties they own and I question whether on a national level, they have the capacity to move with the speed this legislation envisions.

In some cases, servicers don't even know whether the properties have completed the foreclosure process, so they are selling without having the right to sell. We were successful in Boston because I had established relationships with some servicers beforehand.

We looked into whether it made sense to buy in bulk – that is, buy all or part of a servicer's portfolio. We found that the properties held by specific servicers were scattered throughout the city, so we could not find any economies of scale.

Because we wanted to make an impact on an especially devastated four block area, there was no alternative than to undertake the tedious work of contacting and holding on to servicers' commitments, often through realtors who had little financial incentive to move the process forward.

- I urge you to consider adding some carrots and sticks, either in this legislation or elsewhere, to get servicers to sell these lender-owned properties quickly, rather than sitting on them while the properties and neighborhoods deteriorate.
- The legislation calls for a preference for serving “the lowest income families for the longest period.” In our experience, having a mix of income levels contributes to strong communities. I am concerned that the plan will have the effect of creating streets where the majority of families are very poor and that this poverty will overwhelm the community.
- I believe it's better to have an economic mix that can include clerks, hotel workers, teachers, and health care workers. In other words, typical American neighborhoods rather than islands of economic despair.
- Having said that, I agree with the upper income limits of 140 percent for the purchase of new homeowners and 100 percent of the median for renters. I support the requirement that these houses be continually occupied. I also support the requirement that enables the federal government to share in the capital appreciation of these houses at the time of resale.
- I also call your attention to the provision that limits the purchase price to 90 percent of the median purchase price in the area. Our experience has been that the foreclosed properties were heavily leveraged. In some neighborhoods, over-inflated values became the standard as serial refinancings increased the amount of the mortgage far beyond the worth of the house absent the unsustainable lending frenzy.
- The servicers have been trying to recoup these inflated values. Some other measure, such as tying the purchase price to an economic trending measure, could be devised so that the American taxpayers are not paying more than a prudent person would pay for these houses.

Finally, I applaud the Committee's definition of "single family housing" to mean "one to four dwelling units." Right now, two of our Community Development Corporations – Urban Edge and Nuestra Comunidad – are working with us to finalize a home ownership refinancing program through NHSA.

The stumbling block: Fannie Mae. Fannie is the ultimate purchaser of the loans. They will buy only single family houses, not the two and three deckers that are the ones primarily affected by foreclosure. I urge the Committee to look into this situation with Fannie Mae and work to develop a resolution.

With this proposed legislation, you are protecting the investments the federal government has made in our neighborhoods through CDBG, HOME, and the Low Income Housing Tax Credit. Otherwise, it will take years to undo the massive damage that a relatively small amount of foreclosed properties can cause in a dense, urban neighborhood.

I deeply appreciate the work of this Committee and hope this bill moves forward quickly in both the House AND the Senate. I hope my comments are constructive and helpful to you. Thank you for allowing me to testify today on this critically important piece of legislation.